

UNION COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the Union Community School District in La Porte City, Iowa.

The District's revenues totaled \$11,755,897 for the year ended June 30, 2006, a 5.2 percent increase from the prior year. Revenues included \$4,467,010 in local tax, \$4,482,685 in unrestricted state grants, charges for service of \$1,089,444, operating grants, contributions, and restricted interest of \$1,154,128, and \$103,993 in unrestricted interest.

Expenses for district operations totaled \$11,520,890 an 4.1 percent increase from the prior year. Expenses included \$4,595,573 for regular instruction, \$1,295,911 for special instruction and \$1,104,449 for other instruction.

A copy of the audit report is available for review in the District Secretary's Office, the Office of Auditor of State, and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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Union Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2005 Election)</b>		
Bart Frush	President	2006
Debra Oliver	Vice President	2005
John Robb	Board Member (Resigned)	2005
Reda Charmichael	Board Member	2006
Gordon Jewett	Board Member (Resigned)	2007
Jim Barz	Board Member (Resigned)	2007
Alan Finke	Board Member	2005
Jeff Roberts	Board Member (Appointed)	2005

**Board of Education**

**(After September 2005 Election)**

Bart Frush	President	2006
Joe Connolly	Vice President	2008
Reda Charmichael	Board Member	2006
Jeff Roberts	Board Member	2007
Dennis McLaughlin	Board Member	2008
Robert Hanson	Board Member	2007
Joe Hadachek	Board Member	2008

**School Officials**

Neil Mullen	Superintendent	2006
Kathy Krug	District Secretary/Treasurer and Business Manager	2006
Steve Weidner	Attorney	2006

# **NOTLE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education of the  
Union Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Union Community School District, Laporte City, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Union Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 24, 2006 on our consideration of Union Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

**Member American Institute & Iowa Society of Certified Public Accountants**

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Union Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 24, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Union Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$9,070,679 in fiscal year 2005 to \$9,585,536 in fiscal year 2006, while General Fund expenditures increased from \$9,304,788 in fiscal 2005 to \$9,854,597 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$37,086 in fiscal 2005 to a deficit balance of \$230,616 in fiscal 2006.
- The increase in General Fund revenues was attributable to an increase in state grant revenues in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.
- Overall, the District's net assets increased in the governmental and business-type activities, \$207,967 and \$27,040, respectively.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Union Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Union Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Union Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Union Community School District Annual Financial Report**

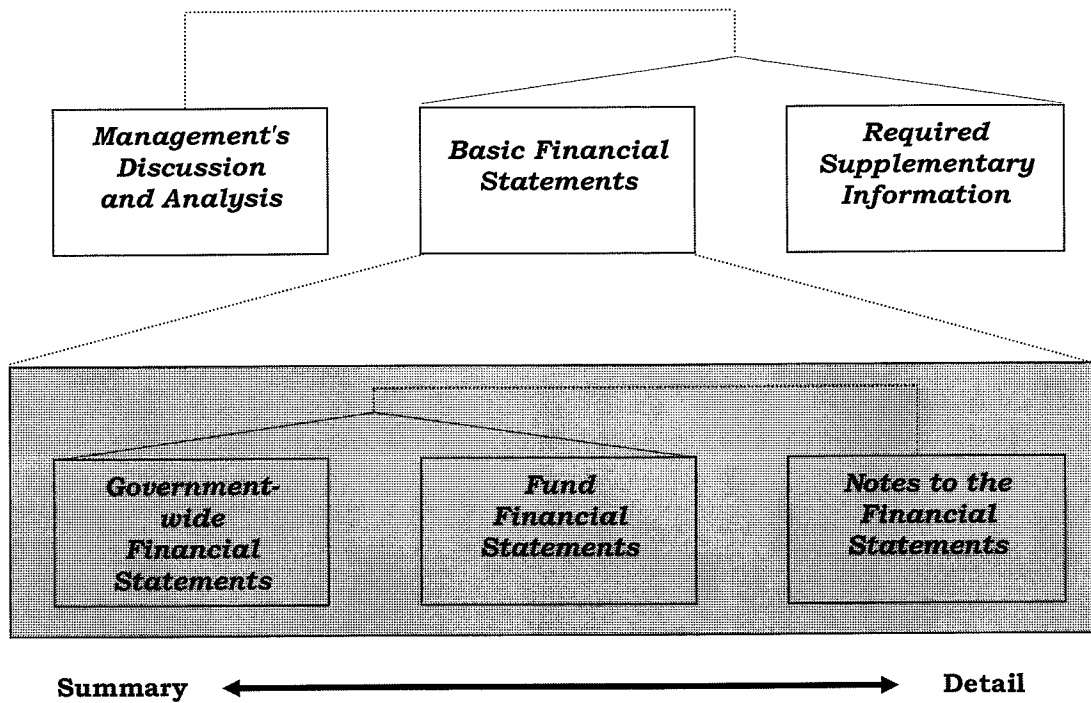


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b>			
<b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 8,869,231	7,983,731	\$ 39,232	16,345	\$ 8,908,463	8,000,076	11.35%
Capital assets	5,229,689	5,498,492	73,809	78,112	5,303,498	5,576,604	-4.90%
Total assets	14,098,920	13,482,223	113,041	94,457	14,211,961	13,576,680	4.68%
Long-term obligations	1,219,250	1,512,724	0	0	1,219,250	1,512,724	-19.40%
Other liabilities	6,594,865	5,892,661	7,873	16,329	6,602,738	5,908,990	11.74%
Total liabilities	7,814,115	7,405,385	7,873	16,329	7,821,988	7,421,714	5.39%
Net assets:							
Invested in capital assets, net of related debt	5,229,689	4,959,645	73,809	78,112	5,303,498	5,037,757	5.27%
Restricted	1,204,048	870,128	0	0	1,204,048	870,128	38.38%
Unrestricted	(148,932)	247,065	31,359	16	(117,573)	247,081	-147.58%
Total net assets	\$ 6,284,805	6,076,838	\$ 105,168	78,128	\$ 6,389,973	6,154,966	3.82%

The District's combined net assets increased 3.82%, or \$235,007, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased 38.38%, or 333,920, over the prior year.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased 147.58%, or \$364,654, from the prior year. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 742,669	962,993	\$ 346,775	307,248	1,089,444	1,270,241	-14.23%
Operating grants and contributions and restricted interest	950,807	960,692	203,321	187,309	1,154,128	1,148,001	0.53%
Capital grants and contributions and restricted interest	1,334	0	0	0	1,334	0	100.00%
General revenues:							
Property tax	3,551,531	3,508,431	0	0	3,551,531	3,508,431	1.23%
Local option sales and service tax	915,479	738,482	0	0	915,479	738,482	0.00%
Unrestricted state grants	4,482,685	4,247,029	0	0	4,482,685	4,247,029	5.55%
Other	560,763	266,035	533	(423)	561,296	265,612	111.32%
Total revenues	11,205,268	10,683,662	550,629	494,134	11,755,897	11,177,796	5.17%
Program expenses:							
Governmental activities:							
Instructional	6,995,933	6,722,959	0	0	6,995,933	6,722,959	4.06%
Support services	3,353,369	3,140,687	0	0	3,353,369	3,140,687	6.77%
Non-instructional programs	6,903	3,912	523,589	533,457	530,492	537,369	-1.28%
Other expenses	641,096	662,778	0	0	641,096	662,778	-3.27%
Total expenses	10,997,301	10,530,336	523,589	533,457	11,520,890	11,063,793	4.13%
Change in net assets	207,967	153,326	27,040	(39,323)	235,007	114,003	106.14%
Net assets beginning of year	6,076,838	5,923,512	78,128	117,451	6,154,966	6,040,963	1.89%
Net assets end of year	\$ 6,284,805	6,076,838	\$ 105,168	78,128	6,389,973	6,154,966	3.82%

In fiscal 2006, property tax and unrestricted state grants account for 71.7% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were approximately \$11.76 million of which \$11.21 million was for governmental activities and slightly more than \$0.55 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.17% increase in revenues and a 4.1% increase in expenses. Unrestricted state grants increased \$235,656 to fund increases in expenditures. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

### Governmental Activities

Revenues for governmental activities were \$11,205,268 and expenses were \$10,997,301.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 6,995,933	5,718,813
Support services	3,353,369	3,304,614
Non-instructional	6,903	6,903
Other expenses	641,096	272,161
Totals	\$ 10,997,301	9,302,491

- The cost financed by users of the District's programs was \$742,669.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$950,807.
- The net cost of governmental activities was financed with \$3,551,531 in property tax, \$915,479 in local option sales and services tax, \$4,482,685 in unrestricted state grants, \$103,460 in interest income.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$550,629 and expenses were \$523,589. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, the Union Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,021,179, above last year's ending fund balances of \$1,847,837. However, the primary reason for the increase in combined fund balances in fiscal 2006 is due to increased local option sales and services tax revenue in the Capital Projects Fund.

### **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position from \$37,086 to a deficit \$230,616 is the product of many factors:
  - Increase in state aid and tuition during the year resulted in an increase in revenues.
  - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.
  - Despite the increases in revenues, the increase in expenditures was still enough to result in a net decrease of \$267,702.
- The Special Revenue, Expendable Trust Fund balance decreased from \$646,263 in fiscal 2005 to \$618,072 in fiscal 2006. This decrease is due to the spending of estate donations for student programs.

- The Capital Projects Fund balance increased from \$731,424 in fiscal 2005 to \$1,288,392 in fiscal 2006. This is due to minimal spending and increased sales tax revenue for the year.

### Proprietary Funds Highlights

The School Nutrition Fund net assets increased from \$78,128 at June 30, 2005 to \$105,168 at June 30, 2006, representing an increase of 34.6%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$677,290 less than budgeted revenues, a variance of 6.12%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the district's budgetary practice, the certified budget was exceeded in the instruction, support services, and non-instructional functional areas due to the timing of expenditures at year end without sufficient time to amend the certified budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$5.3 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$545,460.

The original cost of the District's capital assets was \$14,421,477. Governmental funds account for \$14,220,209 with the remainder of \$201,268 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the improvements other than buildings category. The District's building improvements totaled \$82,152 at June 30, 2005, compared to \$98,732 reported at June 30, 2006.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 53,729	53,729	\$ 0	0	\$ 53,729	53,729	0.00%
Buildings	4,385,280	4,552,198	0	0	4,385,280	4,552,198	-3.81%
Improvements other than buildings	98,732	82,152	0	0	98,732	82,152	16.79%
Machinery and equipment	691,948	810,413	73,809	78,112	765,757	888,525	-16.03%
Total	<u>\$ 5,229,689</u>	<u>5,498,492</u>	<u>\$ 73,809</u>	<u>78,112</u>	<u>\$ 5,303,498</u>	<u>5,576,604</u>	<u>-5.15%</u>

## Long-Term Debt

At June 30, 2006, the District had \$1,219,250 in other long-term debt outstanding. This represents a decrease of 19.4% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding revenue bonded indebtedness payable from the Capital Projects Fund of \$975,000 at June 30, 2006.

The District had total outstanding notes payable from the Special Revenue, Physical Plant and Equipment Levy to the Special Revenue, Expendable Trust Fund of \$150,000 at June 30, 2006.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$94,250 at June 30, 2006.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
Revenue bonds	\$ 975,000	1,265,000	-22.9%
Note payable	150,000	150,000	0.0%
Early retirement	94,250	97,724	-3.6%
Totals	\$ 1,219,250	1,512,724	-19.4%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kathy Krug, District Secretary/Treasurer and Business Manager, Union Community School District, 200 Adams, La Porte City, Iowa, 50651.

## BASIC FINANCIAL STATEMENTS

UNION COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 2,424,136	0	2,424,136
Other	2,144,187	29,508	2,173,695
Receivables:			
Property tax:			
Delinquent	61,342	0	61,342
Succeeding year	3,503,022	0	3,503,022
Income surtax	257,250	0	257,250
Accounts	5,347	420	5,767
Accrued ISCAP interest(Note 4)	15,931	0	15,931
Note(Note 7)	150,000	0	150,000
Due from other governments	308,016	0	308,016
Inventories	0	9,304	9,304
Capital assets, net of accumulated depreciation(Note 5)	5,229,689	73,809	5,303,498
<b>TOTAL ASSETS</b>	<b>14,098,920</b>	<b>113,041</b>	<b>14,211,961</b>
<b>LIABILITIES</b>			
Accounts payable	313,911	11	313,922
Salaries and benefits payable	315,682	0	315,682
ISCAP warrants payable(Note 4)	2,423,000	0	2,423,000
ISCAP interest payable(Note 4)	18,008	0	18,008
ISCAP unamortized premium	17,179	0	17,179
Accrued interest payable	4,063	0	4,063
Deferred revenue:			
Succeeding year property tax	3,503,022	0	3,503,022
Other	0	7,862	7,862
Long-term liabilities(Note 6):			
Portion due within one year:			
Revenue bonds payable	310,000	0	310,000
Early retirement payable	85,056	0	85,056
Portion due after one year:			
Revenue bonds payable	665,000	0	665,000
Note payable	150,000	0	150,000
Early retirement payable	9,194	0	9,194
<b>TOTAL LIABILITIES</b>	<b>7,814,115</b>	<b>7,873</b>	<b>7,821,988</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	5,229,689	73,809	5,303,498
Restricted for:			
Talented and gifted	6,958	0	6,958
Salary improvement program	2,314	0	2,314
Expendable trust	618,072	0	618,072
Capital projects	309,329	0	309,329
Physical plant and equipment levy	62,604	0	62,604
Other special revenue purposes	204,771	0	204,771
Unrestricted	(148,932)	31,359	(117,573)
<b>TOTAL NET ASSETS</b>	<b>\$ 6,284,805</b>	<b>105,168</b>	<b>6,389,973</b>

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
JUNE 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 4,595,573	352,167	513,171	0	(3,730,235)	0	(3,730,235)
Special instruction	1,295,911	0	64,102	0	(1,231,809)	0	(1,231,809)
Other instruction	1,104,449	347,680	0	0	(756,769)	0	(756,769)
	6,995,933	699,847	577,273	0	(5,718,813)	0	(5,718,813)
Support services:							
Student services	221,428	0	0	0	(221,428)	0	(221,428)
Instructional staff services	495,211	0	0	0	(495,211)	0	(495,211)
Administration services	1,088,999	0	0	0	(1,088,999)	0	(1,088,999)
Operation and maintenance of plant services	874,227	0	0	0	(874,227)	0	(874,227)
Transportation services	673,504	42,822	5,933	0	(624,749)	0	(624,749)
	3,353,369	42,822	5,933	0	(3,304,614)	0	(3,304,614)
Non-instructional programs:							
Food service operations	6,903	0	0	0	(6,903)	0	(6,903)
Other expenditures:							
Facilities acquisitions	30,496	0	0	1,334	(29,162)	0	(29,162)
Long-term debt interest	62,442	0	0	0	(62,442)	0	(62,442)
AEA flowthrough	367,601	0	367,601	0	0	0	0
Depreciation(unallocated)*	180,557	0	0	0	(180,557)	0	(180,557)
	641,096	0	367,601	1,334	(272,161)	0	(272,161)
Total governmental activities	10,997,301	742,669	950,807	1,334	(9,302,491)	0	(9,302,491)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	523,589	346,775	203,321	0	0	26,507	26,507
Total business-type activities	523,589	346,775	203,321	0	0	26,507	26,507
Total	\$ 11,520,890	1,089,444	1,154,128	1,334	(9,302,491)	26,507	(9,275,984)
General Revenues:							
Property tax levied for:							
General purposes					\$ 3,460,992	0	3,460,992
Capital outlay					90,539	0	90,539
Local option sales and services tax					915,479	0	915,479
Unrestricted state grants					4,482,685	0	4,482,685
Unrestricted investment earnings					103,460	533	103,993
Gain on sale of equipment					1,359	0	1,359
Other					455,944	0	455,944
Total general revenues					9,510,458	533	9,510,991
Changes in net assets					207,967	27,040	235,007
Net assets beginning of year					6,076,838	78,128	6,154,966
Net assets end of year					\$ 6,284,805	105,168	6,389,973

\* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Special Revenue - Expendable Trust	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>					
Cash and pooled investments:					
ISCAP(Note 4)	\$ 2,424,136	0	0	0	2,424,136
Other	272,119	471,390	1,054,964	345,714	2,144,187
Receivables:					
Property tax					
Delinquent	56,435	0	0	4,907	61,342
Succeeding year	3,201,284	0	0	301,738	3,503,022
Income surtax	257,250	0	0	0	257,250
Accounts	2,435	0	0	2,912	5,347
Accrued ISCAP interest(Note 4)	15,931	0	0	0	15,931
Note(Note 7)	0	150,000	0	0	150,000
Due from other governments	74,298	0	233,718	0	308,016
<b>TOTAL ASSETS</b>	<b>\$ 6,303,888</b>	<b>621,390</b>	<b>1,288,682</b>	<b>655,271</b>	<b>8,869,231</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 302,101	3,318	290	8,202	313,911
Salaries and benefits payable	315,682	0	0	0	315,682
ISCAP warrants payable(Note 4)	2,423,000	0	0	0	2,423,000
ISCAP interest payable(Note 4)	18,008	0	0	0	18,008
ISCAP unamortized premium	17,179	0	0	0	17,179
Deferred revenue:					
Succeeding year property tax	3,201,284	0	0	301,738	3,503,022
Income surtax	257,250	0	0	0	257,250
Total liabilities	<b>6,534,504</b>	<b>3,318</b>	<b>290</b>	<b>309,940</b>	<b>6,848,052</b>
Fund balances:					
Reserved for:					
Talented and gifted	6,958	0	0	0	6,958
Salary improvement program	2,314	0	0	0	2,314
Unreserved:					
General	(239,888)	0	0	0	(239,888)
Expendable trust	0	618,072	0	0	618,072
Capital projects	0	0	1,288,392	0	1,288,392
Management levy	0	0	0	77,956	77,956
Physical plant and equipment levy	0	0	0	62,604	62,604
Other special revenue purposes	0	0	0	204,771	204,771
Total fund balances	<b>(230,616)</b>	<b>618,072</b>	<b>1,288,392</b>	<b>345,331</b>	<b>2,021,179</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,303,888</b>	<b>621,390</b>	<b>1,288,682</b>	<b>655,271</b>	<b>8,869,231</b>

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 2,021,179
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	5,229,689
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	257,250
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(4,063)
Long-term liabilities, including revenue bonds payable, revenue bonds payable, note payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,219,250)</u>
Net assets of governmental activities (page 13)	<u>\$ 6,284,805</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Special Revenue - Expendable Trust	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 3,282,119	0	0	260,666	3,542,785
Local option sales and service tax	0	0	915,479	0	915,479
Tuition	352,167	0	0	0	352,167
Other	385,337	20,203	39,140	373,916	818,596
Intermediate sources	151,769	0	0	0	151,769
State sources	5,222,920	0	0	223	5,223,143
Federal sources	191,224	0	0	0	191,224
Total revenues	9,585,536	20,203	954,619	634,805	11,195,163
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular instruction	4,425,421	33,358	0	69,498	4,528,277
Special instruction	1,295,911	0	0	0	1,295,911
Other instruction	758,856	0	0	367,254	1,126,110
	6,480,188	33,358	0	436,752	6,950,298
Support services:					
Student services	221,975	0	0	9,484	231,459
Instructional staff services	364,229	0	0	6,700	370,929
Administration services	1,069,673	0	0	9,847	1,079,520
Operation and maintenance of plant services	791,834	15,036	0	75,925	882,795
Transportation services	552,194	0	0	167,116	719,310
	2,999,905	15,036	0	269,072	3,284,013
Non-instruction:					
Community service and other enterprise operations	6,903	0	0	0	6,903
Other expenditures:					
Facilities acquisitions	0	0	44,001	16,714	60,715
Long-term debt:					
Principal	0	0	0	290,000	290,000
Interest and fiscal charges	0	0	0	63,650	63,650
AEA flowthrough	367,601	0	0	0	367,601
	367,601	0	44,001	370,364	781,966
Total expenditures	9,854,597	48,394	44,001	1,076,188	11,023,180
Excess(deficiency) of revenues over(under) expenditures	(269,061)	(28,191)	910,618	(441,383)	171,983
Other financing sources(uses):					
Transfer in	0	0	0	353,650	353,650
Transfer out	0	0	(353,650)	0	(353,650)
Sale of equipment	1,359	0	0	0	1,359
Total other financing sources(uses)	1,359	0	(353,650)	353,650	1,359
Net change in fund balances	(267,702)	(28,191)	556,968	(87,733)	173,342
Fund balance beginning of year	37,086	646,263	731,424	433,064	1,847,837
Fund balance end of year	\$ (230,616)	618,072	1,288,392	345,331	2,021,179

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds(page 17) \$ 173,342

**Amounts reported for governmental activities in the  
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of current depreciation exceed expenditures in the current year, as follows:

Capital outlay	\$ 264,134	
Depreciation expense	(532,937)	(268,803)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 8,746

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	3,474
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Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 290,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,208

Changes in net assets of governmental activities(page 14) \$ 207,967

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006

	<u>School Nutrition</u>
ASSETS	
Current assets:	
Cash and pooled investments	\$ 29,508
Accounts receivable	420
Inventories	9,304
Capital assets, net of accumulated depreciation (Note 5)	73,809
TOTAL ASSETS	<u>113,041</u>
LIABILITIES	
Accounts payable	11
Deferred revenue:	
Other	7,862
TOTAL LIABILITIES	<u>7,873</u>
NET ASSETS	
Investment in capital assets, net of related debt	73,809
Unrestricted	31,359
Total net assets	<u>\$ 105,168</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 346,775
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	141,838
Benefits	96,358
Services	4,180
Supplies	268,690
Depreciation	12,523
TOTAL OPERATING EXPENSES	<u>523,589</u>
OPERATING LOSS	<u>(176,814)</u>
NON-OPERATING REVENUES:	
State sources	7,316
Federal sources	196,005
Interest income	533
TOTAL NON-OPERATING REVENUES	<u>203,854</u>
Changes in net assets	27,040
Net assets beginning of year	<u>78,128</u>
Net assets end of year	<u>\$ 105,168</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNION COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 345,496
Cash received from miscellaneous operating activities	2,342
Cash payments to employees for services	(238,196)
Cash payments to suppliers for goods or services	(242,664)
Net cash used in operating activities	<u>(133,022)</u>
Cash flows from non-capital financing activities:	
State grants received	7,316
Federal grants received	156,772
Net cash provided by non-capital financing activities	<u>164,088</u>
Cash flows from capital financing activities:	
Acquisition of capital assets	<u>(8,220)</u>
Cash flows from investing activities:	
Interest on investment	<u>533</u>
Net increase in cash and cash equivalents	23,379
Cash and cash equivalents at beginning of year	<u>6,129</u>
Cash and cash equivalents at end of year	<u>\$ 29,508</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (176,814)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	39,233
Depreciation	12,523
Increase in inventories	(358)
Decrease in accounts receivable	850
Decrease in accounts payable	(8,669)
Increase in deferred revenue	213
Net cash used in operating activities	<u>\$ (133,022)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and investments	<u>\$ 29,508</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$39,233.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**(1) Summary of Significant Accounting Policies**

The Union Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of La Porte City, Dysart and Mount Auburn, Iowa, and the predominate agricultural territory in Tama, Blackhawk, Buchanan and Benton Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Union Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Union Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Tama, Blackhawk, Buchanan and Benton Counties Assessor's Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Special Revenue, Expendable Trust Fund is utilized to account for the payments of scholarships to students.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following proprietary funds:

The District's proprietary fund is the School Nutrition Fund. The Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the instruction, support services, and non-instructional functional areas exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified portfolio	<u>\$ 1,831,638</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) **Transfers**

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	<u>\$ 353,650</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) **Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/06	1/26/07	\$ 926,221	15,465	923,000	17,638
2006-07A	6/28/06	6/28/07	1,497,915	466	1,500,000	370
Total			<u>\$ 2,424,136</u>	<u>15,931</u>	<u>2,423,000</u>	<u>18,008</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ 0	2,620,000	2,620,000	0
2005-06B	0	1,600	1,400	200
Total	<u>\$ 0</u>	<u>2,621,600</u>	<u>2,621,400</u>	<u>200</u>

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

# (5) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 53,729	0	0	53,729
Total capital assets not being depreciated	53,729	0	0	53,729
Capital assets being depreciated:				
Buildings	8,735,504	0	0	8,735,504
Land improvements	1,182,226	30,219	0	1,212,445
Machinery and equipment	4,083,154	233,915	98,538	4,218,531
Total capital assets being depreciated	14,000,884	264,134	98,538	14,166,480
Less accumulated depreciation for:				
Buildings	4,183,306	166,918	0	4,350,224
Land improvements	1,100,074	13,639	0	1,113,713
Machinery and equipment	3,272,741	352,380	98,538	3,526,583
Total accumulated depreciation	8,556,121	532,937	98,538	8,990,520
Total capital assets being depreciated, net	5,444,763	(268,803)	0	5,175,960
Governmental activities capital assets, net	\$ 5,498,492	(268,803)	0	5,229,689

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 216,605	8,220	23,557	201,268
Less accumulated depreciation	138,493	12,523	23,557	127,459
Business-type activities capital assets, net	\$ 78,112	(4,303)	0	73,809

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 106,144
Other	2681
Support services:	
Student	953
Instructional staff	124,282
Administration	14,473
Operation and maintenance of plant	4,236
Transportation	99,611
	<u>352,380</u>
Unallocated depreciation	<u>180,557</u>
Total governmental activities depreciation expense	<u>\$ 532,937</u>
Business-type activities:	
Food services	<u>\$ 12,523</u>

#### (6) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Revenue bonds	1,265,000	0	290,000	975,000	310,000
Notes payable	150,000	0	0	150,000	0
Early retirement	97,724	53,162	56,636	94,250	85,056
Total	<u>\$ 1,512,724</u>	<u>53,162</u>	<u>346,636</u>	<u>1,219,250</u>	<u>395,056</u>

#### Revenue Bonds Payable

Revenue bonds are paid with local option sales and service tax monies from the Capital Projects Fund. Details of the District's June 30, 2006 revenue bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Issue dated December 1, 2001		
		Principal	Interest	Total
2007	5.00 %	\$ 310,000	48,750	358,750
2008	5.00	325,000	33,250	358,250
2009	5.00	340,000	17,000	357,000
Total		<u>\$ 975,000</u>	<u>99,000</u>	<u>1,074,000</u>

#### Note Payable

During the year ended June 30, 2000, the PPEL borrowed \$250,000 from the Bower Trust for construction expenses. The District is currently making annual payments from the Physical Plant and Equipment Levy to the Bower Trust to repay the amount borrowed. The Board intentionally disregarded the repayment

schedule set in place when the amount was originally borrowed. However, the District reserves the right to not repay the amount borrowed. Since there is no current repayment schedule in place, we are unable to determine the amount to be repaid within one year. The balance of the notes payable at June 30, 2006 is \$150,000.

#### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a calculation of base salary less starting base salary and number of years of consecutive service. Early retirement benefits paid during the year ended June 30, 2006, totaled \$56,636. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

#### **(7) Note Receivable**

The District's Bower Trust fund loaned the Special Revenue, Physical Plant and Equipment Levy Fund \$250,000 to be used for construction expenses. The District currently plans on repaying this loan over the next several years. At the same time, the District is not required to repay this loan. The balance of the note receivable is \$150,000 at June 30, 2006.

#### **(8) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$282,538, \$276,004 and \$270,784 respectively, equal to the required contributions for each year.

#### **(9) Risk Management**

Union Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$367,601 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**(11) Deficit Fund Balance/Net Assets**

The District's General Fund had a negative unreserved fund balance of \$239,888.

REQUIRED SUPPLEMENTARY INFORMATION

UNION COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 5,629,027	347,308	5,976,335	5,258,467	5,258,467	(717,868)
Intermediate sources	151,769	0	151,769	160,000	160,000	8,231
State sources	5,223,143	7,316	5,230,459	5,254,035	5,254,035	23,576
Federal sources	191,224	196,005	387,229	396,000	396,000	8,771
Total receipts	11,195,163	550,629	11,745,792	11,068,502	11,068,502	(677,290)
Expenditures						
Instruction	6,950,298	0	6,950,298	6,747,000	6,747,000	(203,298)
Support services	3,284,013	0	3,284,013	3,041,000	3,041,000	(243,013)
Non-instructional programs	6,903	523,589	530,492	520,000	520,000	(10,492)
Other expenditures	781,966	0	781,966	850,004	850,004	68,038
Total disbursements	11,023,180	523,589	11,546,769	11,158,004	11,158,004	(388,765)
Excess(deficiency) of revenues over(under) expenditures	171,983	27,040	199,023	(89,502)	(89,502)	(288,525)
Other financing sources, net	1,359	0	1,359	0	0	1,359
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	173,342	27,040	200,382	(89,502)	(89,502)	(287,166)
Balance beginning of year	1,847,837	78,128	1,925,965	1,119,341	1,119,341	(806,624)
Balance end of year	\$ 2,021,179	105,168	2,126,347	1,029,839	1,029,839	(1,093,790)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the instruction, support services and non-instructional programs functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

UNION COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2006

	Special Revenue Funds			
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 74,749	210,061	60,904	345,714
Receivables:				
Property tax				
Delinquent	3,207	0	1,700	4,907
Succeeding year	206,000	0	95,738	301,738
Accounts	0	2,912	0	2,912
TOTAL ASSETS	\$ 283,956	212,973	158,342	655,271
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 0	8,202	0	8,202
Deferred revenue - succeeding year property tax	206,000	0	95,738	301,738
Total Liabilities	206,000	8,202	95,738	309,940
Fund Balances:				
Unreserved fund balances	77,956	204,771	62,604	345,331
TOTAL LIABILITIES AND FUND BALANCES	\$ 283,956	212,973	158,342	655,271

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
OTHER NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	Special Revenue Funds				Total	
	Manage-	Student	Physical	Total	Debt	Total
	ment	Activity	Plant and	Special	Service	Other
	Levy		Equipment	Revenue		Nonmajor
			Levy	Funds		Governmental
						Funds
REVENUES:						
Local sources:						
Local tax	\$ 170,127	0	90,539	260,666	0	260,666
Other	8,275	363,897	1,744	373,916	0	373,916
State sources	146	0	77	223	0	223
TOTAL REVENUES	178,548	363,897	92,360	634,805	0	634,805
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	69,498	0	0	69,498	0	69,498
Other instruction	0	367,254	0	367,254	0	367,254
Support services:						
Student services	9,484	0	0	9,484	0	9,484
Instructional staff services	0	0	6,700	6,700	0	6,700
Administration services	5,152	0	4,695	9,847	0	9,847
Operation and maintenance of plant services	62,991	0	12,934	75,925	0	75,925
Transportation services	24,738	0	142,378	167,116	0	167,116
Other expenditures:						
Facilities acquisitions	0	0	16,714	16,714	0	16,714
Long-term debt:						
Principal	0	0	0	0	290,000	290,000
Interest and fiscal charges	0	0	0	0	63,650	63,650
TOTAL EXPENDITURES	171,863	367,254	183,421	722,538	353,650	1,076,188
Excess(deficiency) of revenues over(under) expenditures	6,685	(3,357)	(91,061)	(87,733)	(353,650)	(441,383)
OTHER FINANCING SOURCES(USES):						
Transfer in	0	0	0	0	353,650	353,650
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	6,685	(3,357)	(91,061)	(87,733)	0	(87,733)
FUND BALANCES BEGINNING OF YEAR	71,271	208,128	153,665	433,064	0	433,064
FUND BALANCES END OF YEAR	\$ 77,956	204,771	62,604	345,331	0	345,331

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Band Uniforms	\$ 1,406	47	0	1,453
HS Band	0	6,857	6,857	0
MS Band	905	0	0	905
Choir	2,489	8,383	10,237	635
Band Uniforms Fees	1,689	452	0	2,141
Choir Robes	2,950	829	0	3,779
Annuals-prior years	0	315	0	315
Annual 2005	4,975	30	5,005	0
Memory Book	4,311	2,084	713	5,682
Annual 2006	0	12,556	10,651	1,905
Drama	7,170	6,059	4,076	9,153
Magazine sales	0	26,008	26,008	0
Elem - LPC Art Show	434	143	280	297
Music Activity	831	0	0	831
Speech	0	6,630	5,427	1,203
Silver Chord-HS	0	50	0	50
General Transfer	0	10	0	10
Variety Show	249	0	0	249
<u>High School Athletics:</u>				
Cross Country	0	778	778	0
Boys Basketball	3,225	8,519	6,122	5,622
Football	5,748	34,004	31,013	8,739
Booster Club	31,538	34,683	43,631	22,590
Baseball	0	3,820	2,952	868
Boys Track	390	775	1,165	0
Boys Soccer	835	0	0	835
Boys Tennis	0	623	623	0
Boys Golf	0	1,023	1,023	0
Wrestling	1,696	6,804	4,744	3,756
Girls Basketball	3,561	5,656	3,621	5,596
Volleyball	3,184	7,197	5,306	5,075
Softball	732	13,509	9,441	4,800
Girls Track	0	2,427	2,427	0
Girls Tennis	0	104	104	0
Girls Golf	0	858	858	0
Girls Soccer	0	3,444	3,444	0
General Athletics	0	7,698	7,698	0
<u>Middle School Athletics:</u>				
Boys Basketball	0	928	928	0
Football	0	3,174	3,200	(26)
Baseball	0	660	930	(270)
Boys Track	0	3,199	3,199	0
Girls Basketball	0	480	480	0
Softball	0	170	1,162	(992)
Girls Track	0	545	545	0
Volleyball	0	1,318	1,283	35
General Athletics	10,668	3,318	3,756	10,230

UNION COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Elem - DG	1,882	8,207	8,849	1,240
Elem - LPC	1,295	3,365	3,478	1,182
FFA	4,924	25,992	25,823	5,093
Art Club	2,154	1,150	98	3,206
HS Dance Squad	384	2,142	1,056	1,470
<u>Classes:</u>				
Class of 2005	1,548	0	1,548	0
Class of 2006	2,288	636	494	2,430
Class of 2007	3,266	4,913	8,096	83
Class of 2008	2,841	95	0	2,936
Class of 2009	3,347	111	0	3,458
Class of 2010	2,214	1,315	0	3,529
Class of 2011	1,098	1,127	1	2,224
Class of 2012	0	1,429	0	1,429
Math Club	197	0	0	197
National Honor Society	0	78	78	0
HS Cheerleaders	0	1,922	1,922	0
MS Dance Team	0	1,688	1,688	0
MS Cheerleaders	0	1,214	799	415
Student Council - DG	297	1,994	1,526	765
Student Council - HS	339	1,500	1,746	93
Student Council - MS	9,568	16,188	15,341	10,415
Student Council - LPC	2,770	2,029	3,257	1,542
Concessions	22,745	45,050	36,438	31,357
Candy	2,966	400	3,010	356
Endowment Fund	19,169	2,106	0	21,275
Fruit/Juice Break	8,921	13,585	16,583	5,923
Student Activity	12,636	0	12,636	0
German Club	1,126	1,223	1,882	467
Middle School	3,342	111	0	3,453
HS Student Pop	2,700	7,755	6,836	3,619
Talented and Gifted	435	405	158	682
Adult Education	466	0	0	466
Accrual Adjustments	4,224	0	4,224	0
Total	\$ 208,128	363,897	367,254	204,771

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, EXPENDABLE TRUST ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Bowers Estate	\$ 265,651	3,353	0	269,004
Bader Scholarship	2,676	88	400	2,364
Bader Athletic	2,562	100	0	2,662
Nurse Fund	2,077	0	0	2,077
Centennial Scholarship	171	249	250	170
Larson Estate	20,695	803	0	21,498
Anders Scholarship	7,475	7,243	0	14,718
Anders Estate	192,766	2,417	47,744	147,439
Ellis Jones Scholarship-Pharmacy	76,095	2,975	0	79,070
Ellis Jones Scholarship-Academic	76,095	2,975	0	79,070
Total	\$ 646,263	20,203	48,394	618,072

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNION COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

Modified Accrual Basis				
Years Ended June 30				
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 4,458,264	4,239,101	4,214,060	3,998,682
Tuition	352,167	294,161	273,420	260,431
Other	818,596	768,189	754,834	597,520
Intermediate sources	151,769	165,078	150,789	141,896
State sources	5,223,143	5,013,465	4,575,442	4,422,811
Federal sources	191,224	194,256	208,315	190,127
Total	<u>\$ 11,195,163</u>	<u>10,674,250</u>	<u>10,176,860</u>	<u>9,611,467</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 4,528,277	4,406,787	4,512,120	4,014,504
Special instruction	1,295,911	1,249,955	1,121,715	1,054,193
Other instruction	1,126,110	1,008,912	963,921	908,157
Support services:				
Student services	231,459	218,384	205,122	164,229
Instructional staff services	370,929	363,933	370,491	356,421
Administration services	1,079,520	995,038	906,163	828,527
Operation and maintenance of plant services	882,795	757,981	748,422	694,582
Transportation services	719,310	554,188	623,573	557,066
Non-instructional programs	6,903	3,912	0	0
Other expenditures:				
Facilities acquisition	60,715	13,956	61,063	652,634
Long-term debt:				
Principal	290,000	725,000	305,000	256,461
Interest and other charges	63,650	95,673	110,412	121,540
AEA flowthrough	367,601	351,379	368,797	354,393
Total	<u>\$ 11,023,180</u>	<u>10,745,098</u>	<u>10,296,799</u>	<u>9,962,707</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
Union Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Union Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 24, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Union Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06 is a material weakness.

Compliance and Other Matters

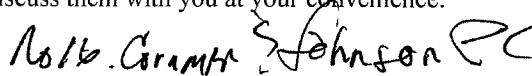
As part of obtaining reasonable assurance about whether Union Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Union Community School District and other parties to Union Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Union Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 24, 2006

UNION COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-06 Checks Outstanding - We noted during our audit that the District had checks included in the Nutrition Fund bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be reissued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - We will comply.

Conclusion - Response accepted.

- I-C-06 Fundraising - We noted during our audit that the District maintains in the Activity Fund a concessions and a fruit break account. These accounts are raising money for no specific purpose and therefore, operating as enterprise funds.

Recommendation - If the District wants to maintain these accounts as an enterprise fund then the revenues and expenditures need to be moved to General Fund where it is allowable. If they want the money to stay in the Activity Fund, then they need to state a specific purpose of what the money is going to be used for within the Activity Fund. This specific purpose also needs to be posted, so the consumer knows what the proceeds are to be used for.

Response - We will display signs at the middle and high school concessions that state that the profits support fine arts, athletics and student organizations. Signs will also be displayed at fruit break which state that the profits support student activities.

Conclusion - Response accepted.

I-D-06 Student Activity Fund - We noted during our audit that the Student Activity Fund included an account named the Endowment Fund where interest earned and old class account balances were placed into this account. The interest earned and old class account balances were not allocated to other Student Activity accounts during the year.

Recommendation - The interest and old class account balances should be allocated out on an annual basis to the individual activity accounts.

Response – We intend to use this fund for Special Projects specifically for students, such as athletic complex. We intend to reserve \$20,000 for future projects.

Conclusion - Response accepted.

I-E-06 Drug Free Grant - As of the audit date, it appeared that Drug Free Grant reports for fiscal 2006 were not being filed quarterly. If the reports are not filed, subsequent funding will not be received.

Recommendation - The District should file the final report by the due date. The District should monitor timelines for grants to ensure that quarterly as well as final reports are filed timely so grant revenues are received for the programs.

Response - We will comply.

Conclusion - Response accepted.

UNION COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

II-A-06 Certified Budget - Expenditures for the year ended June 30, 2006 exceeded the amended certified budget amounts in the instruction, support services and non-instructional functional areas.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will monitor the budget and amend when necessary.

Conclusion - Response accepted.

II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Nancy McFarland, Bus driver Daughter owns La Porte City Printing & Design	Supplies	\$3,655
Louis Beck, Teacher Mother owns Breads by Ruth Beck	Supplies	\$1,606
Rita Eikamp, Teacher Daughter-in-law owns Simply Blooming	Supplies	\$158
Amy Griswold, Teacher Mother sells Mary Kay Cosmetics	Supplies	\$32
Reta Callahan, Teacher Owns Callahan Catering	Speech Judges Meal	\$98
Nancy McFarland, Bus driver Owns Sunshine Florals	Supplies	\$1,376
Joleen Darnall-Poyner, Teacher Owns Groovy Designs	Supplies	\$675

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the daughter of Nancy McFarland, the mother of Louis Beck, the daughter-in-law of Rita Eikamp, and the mother of Amy Griswold do not appear to represent a conflict of interest.

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transactions with Reta Callahan, Nancy McFarland, and Joleen Darnall-Poyner do not appear to represent a conflict of interest.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-J-06 Financial Condition - The District's General Fund had a deficit unreserved fund balance of \$239,888.

Recommendation - We are monitoring the balance and have implemented some reductions to assist in reducing costs which will improve the fund balance.

Response - We will monitor this fund and eliminate the deficit.

Conclusion - Response accepted.